



MONTHLY FISCAL AND EXTERNAL TRADE DEVELOPMENTS REPORT APRIL 2002

Section 1: Fiscal overview

The total deficit for the period Jan-Apr 2002 amounted to LL 1,412 billion compared to LL 954 billion during the comparable period of 2001, resulting in an increase of LL 458 billion. Higher debt service payments of LL 239 billion and higher spending from previous years' appropriations of LL 387 billion were the two primary reasons behind the

increase in the total deficit during the first four months of 2002. Revenue from the VAT, and higher customs and treasury receipts partly offset the increase in expenditures.

Accordingly, a primary surplus of LL 105 billion was achieved during the period Jan-Apr 2002 compared to LL 325 billion during Jan-Apr 2001.

Table 1. Summary of Fiscal Performance

(LL billion)	2001 Apr ¹	2002 Apr	2001 Jan-Apr	2002 Jan-Apr	Change 2001-2002	% change
Budget revenue	280	455	1,344	1,578	234	17.4%
<i>o/w customs revenue</i>	127	129	489	521	32	6.5%
<i>o/w Value Added Tax</i>	0	121	0	232	232	
Budget expenditures	597	828	2,120	2,464	343	16.2%
<i>o/w Debt service</i>	354	553	1,279	1,518	239	18.7%
Budget deficit/surplus	-317	-373	-776	-885	-109	-14.0%
in % of budget expenditures	-53.1%	-45.0%	-36.6%	-35.9%		
Budget primary deficit/surplus	36	181	503	633	130	25.8%
in % of budget expenditures	6.0%	21.9%	23.7%	25.7%		
Treasury receipts	26	36	98	136	38	38.8%
Treasury payments	26	133	276	663	387	140.2%
Total budget and treasury receipts	306	491	1,442	1,714	272	18.9%
Total budget and treasury payments	623	961	2,396	3,127	731	30.5%
Total cash deficit/surplus	-317	-470	-954	-1,412	-458	-48.0%
in % of total expenditures	-50.9%	-48.9%	-39.8%	-45.2%		
Primary deficit/surplus	37	83	325	105	-220	-67.7%
in % of total expenditures	5.9%	8.6%	13.6%	3.4%		

Source: Ministry of Finance (MOF), Directorate General of Finance (DGF)

Note: ¹The figures for April 2001 have been adjusted from previously published data. Adjustments have been introduced to both the revenue and expenditures items, whereby, tax deductions are now included as revenue and added to expenditures as disbursements. Hence, revenue and expenditures are now recorded on a gross basis.

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Section 2: Revenue outcome

Total revenue during Jan-Apr 2002 amounted to LL 1,714 billion, LL 272 billion or approximately 19 percent higher than total revenue achieved during Jan-Apr 2001 which had amounted to LL 1,442 billion.

Budget revenue for Jan-Apr 2002 equaled LL 1,578 billion, compared to LL 1,344 billion for the same period of last year, increasing by LL 234 billion or 17.4 percent.

Tax revenue amounted to LL 1,139 billion during Jan-Apr 2002, compared to LL 816 billion during the same period last year. This increase is attributed to a number of factors among which are the following:

- ☒ **Taxes on income, profits, and capital gains** increased by LL 49 billion, or approximately 41 percent, due to the recent implementation of the tax regularization law and the extension of the

collection deadline for taxes on sole proprietorships until April 15.

- ☒ **Taxes on property** increased by LL 13 billion or 17.6 percent as a result of the implementation of the new real estate law, which was put into effect in March 2001.
- ☒ **Taxes on domestic goods and services** increased by LL 226 billion due to the implementation of the VAT (see section 6 for detailed description of developments on the VAT front).
- ☒ **Taxes on international trade** increased by LL 32 billion or approximately 7 percent over the comparable period in 2001 mainly due to higher excise duties on gasoline.
- ☒ **Other tax revenue** increased by LL 3 billion or approximately 4.5 percent due to the higher collection of stamp duty fees.

Table 2. Tax Revenue

(LL billion)	2001 Jan-Apr	2002 Jan-Apr	% change
Tax revenue	816	1,139	39.6%
Tax on income, profits, & capital gains	119	168	41.2%
Tax on property	74	87	17.6%
Domestic taxes on goods & services	66	292	342.4%
Taxes on international trade	489	521	6.7%
Other tax revenue	66	69	4.5%

Source: MOF, DGF

Note: Revenue from excise taxes is included within customs revenue.

Non-tax revenue during Jan-Apr 2002 amounted to LL 439 billion compared to LL 527 billion during the comparable period of last year. This decrease in non-tax revenue could be attributed to the following:

- ☒ **Income from public institutions and government property** declined by LL 66 billion or approximately 19 percent mostly due to lower transfers from the surplus of the Ministry of Post and Telecom, which amounted to LL 237 billion

during Jan-Apr 2002 compared to LL 300 billion during Jan-Apr 2001 (please refer to Tables 3 and 4). Receipt of the treasury's share of Banque du Liban's profits amounted to LL 20 billion during the period Jan-Apr 2002, LL 1 billion less than what was transferred during Jan-Apr 2001.

- ☒ **Administrative fees and charges** declined by LL 3 billion mainly due to lower consular fees.

Table 3. Non-tax Revenue

(LL billion)	2001 Jan-Apr	2002 Jan-Apr	% change
Non-tax revenue	527	439	-16.7%
Income from public institutions and government property	350	284	-18.9%
Administrative fees & charges	145	122	-15.9%
Penalties & confiscations	4	5	25.0%
Other non-tax revenue	28	28	0.0%

Source: MOF, DGF

Table 4. Income from Public Institutions and Government Property

(LL billion)	2001 Jan-Apr	2002 Jan-Apr
Income from public institutions and government property, o/w	350	284
Casino du Liban	8	9
National Lottery	9	3
Telecom	300	237
Central Bank	21	20

Source: MOF, DGF

Section 3: Expenditure outcome

Total expenditures (budget and treasury) during Jan-Apr 2002 amounted to LL 3,127 billion compared to LL 2,396 billion during the comparable period in 2001 mainly due to higher debt service expenditures and higher treasury payments on account of previous years.

Budget expenditure amounted to LL 2,464 billion during Jan-Apr 2002 and was approximately LL 344 billion or 16 percent higher than expenditures during the first four months of 2001. The increase in budget expenditures could be attributed to the following:

- ☒ Large amount of debt service payments during early 2002, whereby debt service expenditure during Jan-Apr 2002 amounted to LL 1,518

billion compared to LL 1,279 billion during the same period of 2001.

- ☒ **Personnel cost** (composed of wages & salaries and related benefits, end of service, and retirement) increased by 3.8 percent over the outcome of Jan-Apr 2001 due to higher end-of-service payments and a larger number of retiring employees in 2002 (please refer to Table 6).

- ☒ As for **treasury expenditures**, they amounted to LL 663 billion in Jan-Apr 2002 compared to LL 276 billion in Jan-Apr 2001, primarily due to a LL 294 billion increase in spending from previous years' appropriations. Treasury expenditures during Jan-Apr 2002 also included LL 133 billion transferred to EDL, and LL 85 billion in transfers to municipalities.

Table 5. Expenditures

(LL billion)	2001 Jan-Apr	2002 Jan-Apr	Change	% change
Total expenditures	2,396	3,127	731	30.5%
Budget expenditures	2,120	2,464	344	16.2%
Expenditures excluding debt service	841	946	105	12.5%
Debt service	1,279	1,518	239	18.7%
Domestic debt	1,080	1,113	33	3.1%
Foreign debt	198	405	207	104.5%
Treasury expenditures	276	663	387	140.2%
o/w Municipalities	9	85	76	
Previous years' appropriations	51	345	294	

Source: MOF, DGF

Table 6. Personnel cost

(LL billion)	2001 Jan-Apr	2002 Jan-Apr	% change
Personnel cost, of which:	1,023	1,062	3.8%
Wages, salaries, and related benefits*	724	689	-4.8%
Retirement and end-of service	299	373	24.7%

* Includes salaries and wages of Council of the South, Lebanese University, Displaced Council, Council for Reconstruction and Development, and the Educational Center for Research and Development.

Note: Personnel cost numbers are based on liquidated payment orders.

Transfer to **Electricité du Liban 'EDL'** (please refer to Table 7), increased from LL 99.7 billion in Jan-Apr last year to LL 132.8 billion this year mainly due to the LL 56.9 billion increase in debt service payments

made on behalf of EDL. No transfers were made for EDL's expropriation payments this year compared to LL 23.8 billion made in Jan-Apr 2001.

Table 7. Transfers to EDL

(LL billion)	2001 Jan-Apr	2002 Jan-Apr	change
EDL	99.7	132.8	33.1
Debt service*	75.9	132.8	56.9
Fuel	-	-	-
Expropriations	23.8	-	-23.8

Source: MOF, DGF

* Includes principal and interest, LL 60.9 billion of which was paid in QI 2002 to settle a maturing loan initially issued for fuel purchases.

Section 4: Evolution of public debt

Gross total debt amounted to LL 44,227 billion as of end-April 2002. It increased by LL 1,504 billion or 3.5 percent during the first four months of 2002. The equivalent of USD 1 billion of Lebanese Pound denominated treasury bills were retired by the Banque

du Liban on March 5, 2002 when the Ministry of Finance engaged in a debt replacement transaction with the BDL for the purpose of saving on debt service expenditures and extending the maturity profile of public debt (please refer to Table 8).

Table 8. Public Debt

(LL billion)	2001 Dec	2002 Apr	change	% change
Gross total debt	42,723	44,227	1,504	3.5%
Gross domestic debt	28,214	28,172	-42	-0.1%
Foreign debt	14,509	16,055	1,546	10.7%
a. Bilateral & multilateral	2,087	2,112	25	1.2%
b. Other foreign debt	12,423	13,943	1,520	12.2%
<i>of which Eurobonds</i>	11,788	13,308	1,520	12.9%
Net domestic debt	26,301	26,380	79	0.3%
Net total debt	40,810	42,434	1,624	4.0%

Source: MOF, DGF

Section 5: Evolution of external trade

Total exports during the first four months of 2002 increased by USD 56 million or 23 percent when compared to the same period of 2001. Average monthly exports during Jan-Apr 2002 (USD 76 million) were higher than the average monthly exports during Jan-Apr 2001 (USD 62 million) and the average monthly exports for the whole of last year (USD 74 million).

On the imports side, total imports during Jan-Apr 2002 declined by USD 89 million or 4 percent when

compared to the period Jan-Apr 2001. Average monthly imports for the first four months of 2002 amounted to USD 539 million compared to USD 561 million for the comparable period of 2001. Imports during April 2002 recovered to reach USD 568 million up from the levels of February and March which has amounted to USD 405 million and USD 478 million respectively.

In light of the developments outlined above, the trade balance improved by 7 percent during Jan-Apr 2002 over the comparable period in 2001.

Table 9. External Trade

(USD million)	2001 Jan-Apr	2002 Jan-Apr	% change
Exports	247	303	22.7%
Imports	2,243	2,154	-4.0%
Trade balance	-1,996	-1,851	7.3%

Source: MOF, Directorate General of Customs (DGC)

Sources of imports: Arab countries maintained their share of imports, while imports from the European countries declined by two percentage points. Imports from Arab and European countries decreased by 4 and 6 percent respectively, while imports from the United States increased by 7 percent.

On a country level, Italy ranked first with a share of 11 percent, Germany ranked second with a share of 9 percent and the United States ranked third with a share of 8 percent.

Destination of exports: The two main destinations for Lebanese exports remain the Arab countries with a share of 43 percent and European Union countries with a share of 16 percent. Exports to the European Union were mostly composed of prepared foodstuffs

and pulp of wood, paper and paperboard. Exports to Switzerland have increased considerably during the first four months of 2002 compared to an annual export level of USD 63 million in 2001. It now ranks first among export countries with a share of 15 percent. The largest exported products to Switzerland were pearls, precious and semi-precious stones and machinery and optical equipments, almost equivalent to the share of all European Countries combined. Saudi Arabia ranked second with a share of 10 percent and the exported products were mostly prepared foodstuffs, pulp of wood, paper and paperboard. The United Arab Emirates ranked third with a share of 9 percent and the exported products were textiles articles, pearls, precious or semi-precious stones, and machinery and optical equipments.

Table 10. Regional Distribution of Imports and Exports

Imports				
(USD million)	2001		2002	
	Jan-Apr	% share	Jan-Apr	% share
Total	2,243	100%	2,154	100%
Arab Countries	286	13%	274	13%
European Union	999	45%	937	43%
United States	164	7%	176	8%
Switzerland	96	4%	64	3%
Other	698	31%	703	33%

Exports				
	2001		2002	
	Jan-Apr	% share	Jan-Apr	% share
Total	247	100%	303	100%
Arab Countries	105	43%	129	43%
European Union	53	22%	48	16%
Switzerland	16	6%	45	15%
United States	16	6%	16	5%
Other	57	23%	65	21%

Source: MOF, DGC

Composition of imports: The shares of four of the five major import goods decreased during Jan-Apr 2002 when compared to the same period in 2001. Imports of mineral products (mainly gasoline imports) decreased by approximately 7 percent during the first four months of 2002 compared to imports during the first four months of 2001. Average monthly imports of gasoline have dropped from USD 91 million and

USD 112 million in 2000 and 2001 respectively, to USD 78 million in 2002. Imports of chemical products increased by 14 percent. While car imports during the period Jan-Apr 2002 exceeded that of the comparable period of 2001 by more than 40 percent, transport equipment in general has dropped by 21 percent due to the decrease in the import levels of ships, boats, and floating structures.

Table 11. Imports Distribution by Product

(USD million)	2001		2002	
	Jan-Apr	% share	Jan-Apr	% share
Mineral products	334	15%	311	15%
Machinery and mechanical appliances	308	14%	306	14%
Products of the chemical	186	8%	215	10%
Transport equipment	250	11%	197	9%
Prepared foodstuffs	153	7%	156	7%
Other goods	1,042	45%	969	45%
Total	2,243	100%	2,154	100%

Source: MOF, DGC

Composition of exports: The USD 56 million increase in exports during the Jan-Apr 2002 was mainly as a result of the USD 33 million increase in the export of manufactured jewelry and gold. This product category represented 23 percent of total Lebanese exports and ranked first among other product categories. Machinery and mechanical

appliances ranked second with a share of 12 percent while chemical products ranked third with a share of 11 percent. Chemical products witnessed an increase of 39 percent during Jan-Apr 2002 when compared to Jan-Apr 2001, mainly due to the increase of the level of imports of non-organic chemical products and fertilizers by 56 percent and 150 percent respectively.

Table 12. Exports Distribution by Product

(USD million)	2001		2002	
	Jan-Apr	% share	Jan-Apr	% share
Pearls, precious or semi-precious stones	38	15%	71	23%
Machinery and mechanical appliances	37	15%	37	12%
Products of the chemical	23	9%	32	11%
Prepared foodstuffs	25	10%	29	10%
Base metals and articles of base metals	22	9%	26	8%
Other exports	102	42%	108	36%
Total	247	100%	303	100%

Source: MOF, DGC

Section 6: Developments on the VAT front

Three months since its introduction on February 1, 2002, LL 232 billion has been collected from the VAT. A total of LL 111 billion was collected at customs during February and March, while LL 121 was collected from customs and domestic declarations combined in April 2002.

Registration: Up till June 25, the number of tax payers registered at the VAT directorate was 7,985, marking an increase of 11 percent when compared to the number of registered companies at the launch date.

49 decrees and circulars for the VAT have been issued to date. As for the geographic distribution of taxpayers, more than 86 percent are located in Beirut and Mount Lebanon (please refer to Table 14).

Table 13. VAT General Statistics

	Feb 1	June 25
Number of tax payers registered and accepted	7,211	7,985
Mandatory registrations	6,371	6,647
Voluntary registrations	840	1,338
Number of field visits to tax payers	1,107	6,329*
Number of VAT tax-payers submitted to audit visits	-	300
Number of lectures organized outside the administration	90	112
Number of visitors to the internet site	4,143	14,307
Number of issued decrees and decisions	30	49

Source: MOF, VAT Directorate

* As of April 1, 2002, field visits to taxpayers were replaced by audit visits on April 22, 2002.

Table 14. Number of Tax Payers Registered By Region

	2002		2002	
	Feb 1	% Share	June 18	% Share
Beirut	2,693	37.3%	3,041	38.1%
Mount Lebanon	3,614	50.1%	3,881	48.6%
North Lebanon	328	4.6%	385	4.8%
South Lebanon	267	3.7%	322	4.0%
Bekaa	258	3.6%	291	3.7%
Nabatieh	51	0.7%	65	0.8%
Total	7,211	100%	7,985	100%

Source: MOF, VAT Directorate

VAT collection by product (at customs): The five highest contributing items to VAT receipts collected at customs were mineral products with a share of 23 percent, machinery and mechanical equipment with a share of 16 percent, transport equipment and prepared

food stuff, each with a share of 11 percent, and textiles with a share of 9 percent. The five items combined constituted 70 percent of VAT revenue collected at customs.

Table 15. VAT Revenue Collected At Customs (Five Largest Contributing Items)*

billion LL	2002 Feb-Apr	Share
VAT customs collection, of which	186	100%
Mineral products	42	22.6%
Machinery and mechanical appliances	29	15.6%
Transports equipment	21	11.3%
Prepared foodstuffs	20	10.8%
Textiles	17	9.1%
Others	57	30.6%

Source: MOF, VAT Directorate

* VAT numbers quoted in this table are based on declarations, whereas VAT numbers mentioned in Table 1 are based on actual collections. Therefore, a slight difference might be detected between VAT figures of Tables 1 and 15.

VAT collected from internal declarations: In accordance with the VAT law, VAT declarations from domestic points of sale are performed on a quarterly basis - due twenty days following the end of each quarter.

Therefore, the deadline to present the VAT declarations from domestic points of sale for Q1 2002 was on April 20, 2002.

VAT revenue from domestic points of sale amounted to LL 55 billion based on the first quarter's turnover.

Whereas 50 percent of declarations were from Mount Lebanon, with Beirut ranking second, VAT collection from points of sale were reversed, with Beirut ranking first and Mount Lebanon ranking second. 90 percent of the collections originated from the two regions mentioned above.

Compliance rate: Out of total registered VAT taxpayers, 98 percent presented their declarations, of which 94 percent complied with the deadline set forth in the VAT law.

Table 16. VAT Revenue Collected at the VAT Directorate*

	Feb-Mar Distribution	No. of declarations	% Share
VAT internal collection	100%	7,506	100%
Beirut	49.7%	2,794	37.2%
Mount Lebanon	41.2%	3,779	50.3%
North	5.8%	338	4.5%
South	1.6%	281	3.8%
Bekaa	1.6%	262	3.5%
Nabatieh	0.1%	52	0.7%

Source: MOF, VAT directorate

* From internal points of sale.

Table 17. VAT Revenue from Internal Collection by Sectors

	Feb-Mar 2002 % Share
VAT internal collection	100%
Wholesale, repairs, services (hotels and restaurants)	44%
Various intermediary industries	13%
Real estate activities and commercial projects (Public administration)	13%
Food products and intermediary industries (Food products, tobacco, textiles,...)	9%
Social and personal activities, housecleaning services, NGOs, other	7%
Electricity, gas and water works	7%
Transport, storage, communication, and financial intermediation (commission based)	5%
Manufacturing of machinery, electrical and electronic appliances, furniture	2%
Agriculture, fishing and forestry	0%
Education, health and social work	0%

Source: MOF, VAT Directorate

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